TAX·FEATURES

CEA Chairman Feldstein Named For Tax Foundation's Annual Award

Martin Feldstein, Chairman of the President's Council of Economic Advisers (CEA), has been named by the Tax Foundation's Board of Trustees as recipient of this year's Distinguished Public Service Award. The honor will be bestowed on Feldstein November 30 at the Foundation's 46th Annual Dinner in New York by W. Bruce Thomas, Chairman of Tax Foundation's Board of Trustees and Vice Chairman-Administration and Chief Financial Officer of United States Steel Corporation.

In announcing the Board's decision, Thomas said, "Dr. Feldstein took on his present responsibilities in the midst of the gravest economic crisis the nation has faced since the Great Depression. His expertise and the great respect he enjoys in the government and private sector have served as an important stabilizing force while the policies are being implemented that are moving us out of that recession."

Prior to his nomination to the CEA in August of 1982, Feldstein was Professor of Economics at Harvard University and President of the National Bureau of Economic Research. He specializes in macroeconomics and the economics of the public sector.

He received his A.B. from Harvard College, summa cum laude, and attended Oxford University as a Fulbright scholar. He became a member of the faculty of Oxford in 1965 as Lecturer in Public Finance and a Fellow of Nuffield College. He received his Ph.D. from Oxford in 1967.

In accepting the Foundation's Distinguished Public Service Award for 1983, Feldstein will address the Foundation's Board and other leading corporate executives on the challenges confronting the United States as the recovery unfolds.

For further details or to register for the Dinner, contact Justine D'Andrea or Cynthia Gozigian at 202/328-4500.

Top U.S. Earners Pay Nearly Half of Taxes On Individual Income

The Federal individual income tax bill for tax year 1981 was $285.8 billion. Over $264 billion of this was paid by the higher-earning 50 percent of taxpayers, represented by the 47 million returns with incomes of $14,029 or more.

These earners paid 92.6 percent of the Federal individual income tax bill in 1981, according to Tax Foundation analysis of data recently released by the Treasury Department. This group paid an average tax of $5,599. By comparison, in 1976 the richer half of taxpayers carried 92.8 percent of the Federal tax burden, with an average tax of $3,128.

Moreover, almost half of the tax bill was shouldered by the 9.5 million taxpayers earning in the top 10 percent income bracket. They paid an average of $14,519 in Federal income taxes.

Those earning $38,773 or more in 1981 paid 48.0 percent of all U.S. personal income taxes. Five years earlier, earners in the top 10 percent were footing 48.3 percent of the Federal income tax bill, with an average tax of $8,147.

Those making $14,028 or less paid only 7.4 percent of all Federal income taxes in 1981, although this was up a fraction from 7.2 percent in 1976. Their tax bills averaged $450 in 1981 and $243 in 1976.

Earners in the lowest 25 percent income group—those making $6,578 or less—paid just 0.7 percent of the Federal income taxes in 1981, an average of $83 per return. The 9.5 million returns in the lowest 10 percent income group paid an average tax of $15 in 1981.

The average tax for all taxpayers in 1981 was $3,024—an increase of 79 percent from 1976.

The number of millionaires has more than quadrupled since 1976. In 1981, 5,512 persons reported incomes of $1,000,000 or more, up by 4,155 from 1,357 in 1976. The millionaires paid an average tax of $913,203 in 1981 (60 percent of taxable income).

Federal Income Taxes Paid by High- and Low-Income Taxpayers
1976 and 1981

Adjusted gross income class	Income level		Percent of tax paid		Average tax	
	1976	1981	1976	1981	1976	1981
Highest 10 percent	$25,721 or more	$38,773 or more	48.3	48.0	$8,147	$14,519
Highest 25 percent	17,532 or more	25,768 or more	71.6	72.3	4,825	8,750
Highest 50 percent	9,719 or more	14,029 or more	92.8	92.6	3,128	5,599
Lowest 50 percent	9,718 or less	14,028 or less	7.2	7.4	243	450
Lowest 25 percent	4,487 or less	6,578 or less	.5	.7	35	83
Lowest 10 percent	1,804 or less	2,725 or less	(a)	(a)	5	15

[a]Less than .05 percent.
Source: Tax Foundation computations based on Treasury Department data.

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Corporate Profits Boost Tax Index

"The Tax Index grew almost 50 percent faster than the nation's output—Gross National Product—in the second quarter."

The Tax Index reached a level of 446.0 in the second quarter (1967=100), rising at an annual rate of 19.8 percent over the first quarter. This marked the third consecutive rise in the quarterly Tax Index, coinciding with numerous and widespread signals of economic recovery. The second quarter rise in the Index followed a 8.8 percent annual rate gain in the previous quarter.

The sharp rise in corporate profits (20 percent) during the second quarter was a significant factor in the latest rise in the Tax Index. Accrued taxes on those profits accounted for more than 33 percent of the dollar increase in total taxes. The Index component for corporate profits taxes catapulted from a recession low of 166.3, reached in the fourth quarter of 1982, to 234.0 in the second quarter 1983, an increase of 40 percent.

Both Federal and State-local components of the Tax Index rose significantly during the second quarter, showing annualized growth rates of 19.9 percent and 19.3 percent, respectively. The Federal Tax Index stood at 431.2, and the State-local Index at 476.6—both all-time high figures.

Boosts in social security taxes have been a major factor holding the Federal Index on a rising course. Federal social security taxes climbed without interruption to a second quarter Index level of 641.5; the equivalent State-local Index reached 563.5.

Fueled by extensive legislative increases, state-local tax receipts continued to grow virtually undaunted by the economic contraction.

The Tax Index grew almost 50 percent faster than the nation's output—Gross National Product (GNP) measured in current dollars—in the second quarter. Nominal GNP itself increased by a healthy 13.3 percent, following an 8.2 percent annualized rise in the first quarter. In sharp contrast, prices rose at a 3.3 percent rate. The standing of the Tax Index relative to its 1967 base today remains significantly above the output and price indexes. The GNP index (1967=100) stood at 409.2 in the second quarter, the price index at 271.4, and the real output index at 150.8.

Since the third quarter of 1981, the pre-recession high for the overall Tax Index, its growth to date has fallen below that of GNP because of a slowing in the rate of increase in Federal taxes. During the ensuing seven quarters, nominal GNP has grown by nearly 9 percent, and the overall Tax Index by just over 6 percent. In sharp contrast to the 2 percent rise in the Federal Index, the State-local Index has jumped by 16 percent.

Along with weaknesses in the general economy and the slowing of inflation, the Federal Tax Index mirrors tax reductions enacted in the Economic Recovery Tax Act of 1981 (ERTA), which have been phased in starting in October 1981. (The last stage of ERTA, the 10 percent tax cut that took effect July 1, 1983, is not yet reflected in the Index for the second quarter of this year.) Since the third quarter of 1981, Federal taxes have declined from 20.9 percent of GNP to 19.5 percent in the second quarter of 1983.

The only weak component of the State-local Tax Index has been corporate profits tax accruals. The Index for this sector reached a low of 484.9 in fourth quarter 1982 (down from 631.6 before the onset of the recent recession). The recovery has been notable, however: a 36 percent increase in state-local corporate income taxes for the first two quarters of 1983.

The overall personal income tax growth has risen to a 503.7 Index level for second quarter 1983—462.8 at the Federal level and 921.8 at the state-local level. If recent trends continue, the State-local Index for personal income taxes can be expected to break 1,000 by mid-1984.

Indirect business taxes during the first two quarters of 1983 showed a rise of 8.0 percent—17.0 percent at the Federal level and 6.3 percent at state-local levels of government. Federal indirect business tax increases have been primarily attributable to the mushrooming growth in so-called windfall profits tax collections. State-local increases have consisted largely of local property tax recovery combined with legislated increases in broad-based, state government taxes, such as general sales and income levies.

Tax Index and Related Measures

Annually, and Quarterly at Seasonally Adjusted Annual Rates, 1967 = 100
Selected Periods 1970 to 1983

Calendar year and quarter	Tax Index			Output Index[a]		
	Total	Federal	State and local	Current prices	Constant prices	Price Index[b]
Annually						
1970	132.2	127.5	142.1	124.2	107.3	115.7
1975	204.3	191.0	232.1	193.8	122.0	158.8
1976	234.0	220.7	261.7	214.9	128.4	167.4
1977	263.1	249.7	291.1	239.9	135.4	177.1
1978	296.2	287.3	314.8	270.6	142.2	190.3
1979	331.5	328.4	338.0	302.4	146.3	206.7
1980	361.2	359.0	365.9	329.3	145.7	226.0
1981	412.0	416.0	403.6	369.5	149.7	246.8
1982	416.0	408.3	431.9	384.3	146.9	261.7
Quarterly						
1980 I	352.2	349.7	357.5	321.8	148.0	217.5
II	350.4	347.6	356.2	322.5	144.5	223.2
III	363.6	360.8	369.5	330.1	144.8	228.0
IV	378.9	377.9	381.0	342.2	146.1	234.2
1981 I	404.6	409.5	394.3	358.5	149.3	240.1
II	408.7	413.2	399.4	364.3	149.5	243.6
III	419.7	423.8	411.2	375.8	150.9	249.1
IV	416.4	417.0	415.1	379.2	149.0	254.5
1982 I	412.9	410.4	418.1	377.9	146.9	257.2
II	416.8	411.4	427.9	384.0	147.3	260.8
III	416.5	406.5	437.4	386.5	146.9	263.1
IV	417.4	405.0	443.8	388.9	146.4	265.6
1983 I	426.3	412.1	456.1	396.6	147.3	269.2
II	446.0	431.2	476.6	409.2	150.8	271.4

[a]Gross national product.
[b]Implicit price deflator for gross national product.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

Monthly Tax Features

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TF Conference: "Seeking a Balance"

Tax Foundation's 35th National Conference will focus on "Taxes, Spending and Growth—Seeking a Balance," in an all-day session on Wednesday, November 30, at The Plaza Hotel in New York City. Analysts from government, industry, and academia will discuss a broad range of topics.

Leif H. Olsen, Chairman Economic Policy Committee, Citibank, N.A., will keynote the morning session with an economic overview of the coming year. A panel discussion chaired by Thomas J. McHugh, Vice President-Taxes, Dart & Kraft, Inc., follows, dealing with "Taxing, Spending and Growth." Speakers are:

- The Honorable Bill Gradison, U.S. Representative from Ohio's 2nd District—"Taxing."
- J. P. Bolduc, Chief Operating Officer of the President's Private Sector Survey on Cost Control in the Federal Government (Grace Commission)—"Spending."
- Dr. Bruce Bartlett, Chief of Staff, Joint Economic Committee, U.S. Congress—"Growth."

John E. Chapoton, Assistant Secretary for Tax Policy, U.S. Department of the Treasury, will address "Long-Range Planning in Tax Policy" at the luncheon session. Trustee Hans W. Wanders, Chairman of the Board, Wachovia Bank & Trust Company, N.A., and The Wachovia Corporation, will chair.

Wilfred J. Tremblay, Vice President-Taxes, The Hanna Mining Company, will preside over the afternoon session. Dr. Lawrence H. Summers, Department of Economics, Harvard University, will lead off with the topic, "Is There a Consumption Tax in the Wings?" Dr. Allen Schick, School of Public Affairs, University of Maryland, will conclude the program with "Exit the Legislative Veto—What Now?"

The conference is followed by the Tax Foundation's 46th Annual Dinner at which Martin Feldstein, Chairman of the President's Council of Economic Advisers, will receive the Foundation's Distinguished Public Service Award for 1983.

For further details or to register for the Conference, contact Justine D'Andrea or Cynthia Gozigian at 202/328-4500.

THE FRONT BURNER

By Robert C. Brown
Executive Vice President
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"A Helping Hand from IRS"

No one likes to pay taxes. Many of us are not only reluctant to surrender our hard-earned dollars to Uncle Sam or his state and local counterparts, but we are also put off by the sheer difficulty of trying to do so. Those who find the complexities of the Tax Code insurmountable and possess the resources can hire professional help. Not everyone is so fortunate, however.

That is where the VITA program of the Internal Revenue Service (IRS) comes in. Under VITA—Volunteer Income Tax Assistance—the IRS trains and coordinates volunteers to assist individuals who cannot afford professional tax help. VITA focuses primarily on the basic tax documents, Forms 1040A and 1040. Primary beneficiaries are low-income earners, the elderly, non-English speaking citizens and certain handicapped taxpayers.

The IRS trains VITA volunteers in four-to-five-day basic courses in major cities and also provides one-to-three-day refresher courses for experienced tax helpers. Training materials and instructors are provided free of charge. Sessions are generally offered in December through January each year.

This column is being devoted to the IRS VITA program in the belief that it is a positive example of how the bureaucracy can and should serve the citizens. The IRS does not write the Tax Code. It merely enforces the will of our elected legislators. Over the years, that task has become incredibly complicated.

Certain portions of the Code are so complex and contradictory that even Senators and Congressmen will admit they do not themselves understand what they have enacted into law. The IRS, as the delegated collector of tax revenues, must often bear the brunt of criticism that ought more correctly to be aimed at the tax writing committees of the House and Senate. VITA is a positive, realistic response to such criticism.

Volunteerism is at the heart of our way of life. However, it is not quite as inevitable as the proverbial "death and taxes." Volunteers must be recruited. They must come forth. Programs that can use them wisely and well must be devised, implemented, and sustained.

In the tax arena, VITA is one such program. The IRS is to be commended for making it available to taxpayers needing assistance they cannot pay for. VITA deserves our support. And our involvement. For information or to volunteer, contact the IRS at 1-800-424-1040. Say you are calling about VITA.

"VITA is a positive example of how the bureaucracy can and should serve the citizens."

Social Security Benefits Taxed for First Time Under New 1983 Law

"The law sets out a formula that takes into account almost all earnings, dividends, or interest the beneficiary receives."

The Social Security Amendments of 1983 defined for the first time how income tax would be levied on social security and railroad retirement benefits. Prior to the enactment of this law, Congress had never explicitly acted on the exclusion of social security benefits from an individual's taxable income.

The exempt treatment of past years was derived from court decisions and IRS rulings which concluded that such benefits are in the nature of "gifts of public funds" not subject to tax. Other such "gratuities" that continue to remain exempt from tax, after the passage of the 1983 Act, include welfare payments and supplemental security income.

Although these provisions were part of the crisis-motivated package designed to infuse needed cash into the Old-Age and Survivors Disability Insurance (OASDI) trust funds, the full impact of the new law on the legal treatment of social security benefits remains to be seen. The initial effect on retired citizens, though, will be that a few wealthier recipients will find that they must pay some tax on the benefits they receive.

To determine what benefits must be treated as taxable income, the law sets out a formula that takes into account almost all earnings, dividends, or interest the recipient receives. Included in this formula is all interest income received from tax-exempt sources as well as all the sources considered normally taxable. By far the most common form of tax-exempt income is interest earned on state and local bonds.

To compute their tax liability, social security recipients must total their adjusted gross income, income from tax-exempt sources, and one-half of their benefits. If this sum exceeds $25,000 for a single individual, or $32,000 for a couple filing jointly, the taxpayer must include one-half of that excess as part of his taxable income. Tax-exempt interest is included in the formula to reduce taxpayers' ability to avoid the new tax by shifting funds from taxable to tax-exempt investments.

Anytime a specific dollar amount is written into the law, such as the $25,000 and $32,000 in this formula, certain taxpayers will fall just below this "notch" while others will find themselves just above it. In the case of a single taxpayer, every dollar of formula income above $25,000 will add a dollar to his taxable income, although the amount of benefits taxed cannot exceed more than one-half of benefits received. If he receives $10,000 in social security benefits, up to $5,000 could be added to taxable income. This invites an obvious response by the taxpayer to shift investments around or alter working arrangements in the effort to minimize his formula income.

The notch problem has impacted social security before. There has long existed a retirement-earnings test that serves to reduce benefits one dollar for every two dollars of earned income (income from wages and salaries) above a specified limit—$6,600 in 1983. (The reduction does not apply to those aged 70 or over.)

The accompanying table demonstrates how the impact of these two provisions on individuals with the same income level will vary depending on the source of the income.

Impact of Retirement Test and Taxation of Social Security Benefits for Retired Couple Filing Jointly, Maintaining Equivalent Wage Income Level After Retirement through Alternative Income Sources

	Wage earnings of $15,664 in year before retirement (1983 average beneficiary)			Wage earnings of $35,100 in year before retirement (1983 maximum beneficiary)		
	A	B	C	D	E	F
Source of income:						
Earned[a]	$15,664	$ 7,832	$ 0	$35,100	$17,550	$ 0
Taxable investment	0	7,832	7,832	0	17,550	17,550
Non-taxable interest	0	0	7,832	0	0	17,550
Social Security benefits:						
Potential benefits	10,604	10,604	10,604	13,728	13,728	13,728
Retirement test reduction[b]	(4,532)	(616)	0	(13,728)	(5,475)	0
Net benefits	6,072	9,998	10,604	0	8,253	13,728
Taxable benefits	0	0	0	0	3,613	4,982
Taxable income	15,664	15,664	7,832	35,100	38,713	22,532
Tax liability	1,207	1,207	157	4,722	5,725	1,931
After-tax income	20,529	24,455	26,091	30,378	37,628	46,897

[a]Earned income equals all wages and salaries.
[b]Applies only to beneficiaries under 70 years of age.

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